MONETARY POLICY REPORT
PRESENTATION BEFORE THE FINANCE COMMISSION OF THE HONORABLE SENATE OF THE REPUBLIC*

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* The December 2020 *Monetary Policy Report* can be visited at http://www.bcentral.cl.

I. Introduction

Mr President of the Senate's Finance Commission, Senator Jorge Pizarro, Senators members of this Commission; ladies and gentlemen,

I am grateful for your invitation to present the vision of the Board of the Central Bank of Chile (CBC) on recent macroeconomic developments, their prospects, and implications for monetary policy. This vision is contained in detail in the December 2020 *Monetary Policy Report*, published this morning. It also provides the background for the Board's decision at last Monday's Monetary Policy Meeting.

As has been seen since the start of this year, the local and international economic scenario continues to be shaped by the evolution of the Covid-19 pandemic, the measures that have been adopted to control it, and how these have affected the mobility of people and the functioning of the economy. In our country, economic activity has recovered part of the steep drop it suffered between March and May of this year. This has been accompanied by a drop in the number of cases—which has resulted in fewer mobility constraints than in mid-year—, individuals and businesses adjusting to a new form of operation because of the pandemic, and the boost provided by monetary and fiscal policy, along with other support measures for households.

However, this recovery process has been slower than we expected a few months ago. In particular, because mobility has not increased as quickly as we had hoped and the social distancing, both compulsory and voluntary, has had more long-lasting effects on some areas of the economy, such as construction and services. The withdrawal of pension savings has triggered temporary increases in consumption, especially of imported goods, which have had a positive impact on sectors such as retail but have also put pressure on the prices of the most demanded products. In fact, inflation data for September and October showed significant upward surprises, mostly concentrated in the categories of durable consumer products, such as home equipment and electronics. The significant depletion, and in some cases exhaustion, of inventories of these products has contributed to this result.

Investment, beyond the reactivation of public and private projects, is being affected by the restrictions on mobility that have taken a toll on construction, the financial situation of companies, and the persistent uncertainty, so it is lagging further behind than consumption. The labor market, meanwhile, has shown some recovery, with an increase in employment compared to mid-year, but mostly concentrated in non-salaried jobs.

Very recently we learned of the Metropolitan Region's rollback to Phase 2 of the "*Step-by-step*" plan, which could take some of the impulse off activity at the margin. However, it could also help to avoid more drastic measures in the future by articulating a more orderly transition towards a vaccine. Looking ahead, the baseline scenario predicts that the economy will continue to improve, that mobility restrictions will not return to mid-2020 levels, and that the fiscal and monetary momentum will continue, with positive annual growth figures showing more consistently in 2021 starting in the second quarter. Even so, the erosion caused by the deep fall in activity and the use of public and private buffers—which was very necessary to navigate the first months of the pandemic—increases our vulnerability to risk scenarios and poses significant challenges in order for growth to advance towards its trend rate.

Let me now share with you our evaluation of the economic scenario and related risks.

II. The macroeconomic scenario

Global activity has continued to recover from the impact of the Covid-19 pandemic, in a context of increased mobility and continued fighting of the disease. This has also been the case in Chile, although the pace of normalization has been slower than in other countries, slowing down the expected economic recovery (Figure 1). In recent weeks, there have been major outbreaks in the United States and Europe, which has led to the reinstatement of some restrictions. However, as opposed to developments early in the pandemic, these measures have been more focused and not as severe, so mobility has not been reduced as much. In part, this is due to better prepared health systems and the adaptation of businesses and households, increased testing and tracking capabilities, and the ability to focus on those services more intensive in human interaction.

Meanwhile, in the last few weeks, important progress has been made in the development and distribution of Covid-19 vaccines, with several of them in advanced stages and having reported a high degree of effectiveness. In the event of early clinical approval, which is already happening in some countries, laboratories would be able to produce and deliver doses to vaccinate about half of the world's population by the end of 2021, with several countries achieving herd immunity over the next year. This process will occur at different speeds around the world, depending on laboratory production, government contracts, the effectiveness of international coordination, distribution and delivery capacity, and people's willingness to be vaccinated. Consequently, the uncertainty regarding the magnitude and speed of the impact that vaccines will have on economic recovery is still significant. This depends on how soon restrictions will be lifted, whether people will adjust their behavior, and whether the confidence of economic agents will recover. Therefore, the impact of the vaccine on activity will be more significant only as from the second half of 2021. In any case, the international financial markets have reacted positively to the news about the vaccine, exhibiting higher asset prices and lower risk indicators.

All this is occurring as global economic activity continues to recover from the pandemic's shock. Thus, in the third quarter, activity, employment, and income figures outperformed expectations in many countries, although there are still major differences across sectors, with trade in tradable goods contrasting with trade in services (Figure 2). China has driven the recovery, with several indicators already matching or exceeding their pre-pandemic levels. This has contributed to the dynamism of international trade in goods, which has been surprisingly resilient and has positively affected the prices of commodities, especially copper, which has consolidated above USD 3 per pound, and even going as high as USD 3.5 per pound, which had not been seen since early 2013. In any case, even if the worst of the economic crisis is behind us and the vaccine becomes a reality, fiscal and monetary support will still be necessary to ensure a less burdensome outcome for the productive system and ample sectors of the population.

Chile has echoed the global trends in terms of the evolution of the pandemic and the performance of the economy. The reduction in infections has allowed a significant fraction of the country to exit the stricter confinement stages, giving way to increased mobility and the reopening of several economic activities (Figure 3). However, the remaining sanitary constraints, which escalated after last Monday's announcement, mean that sectors such as services and construction continue to be badly affected, delaying recovery. In contrast, manufacturing has already reached its pre-pandemic activity levels and trade has even surpassed them (Figure 4).

Trade activity has been strongly driven by the withdrawal of pension savings, with sales hitting all-time highs in lines such as home equipment, clothing and footwear, in addition to construction materials. Actually, household consumption data for the third quarter shows a very significant rebound in the purchase of durable goods. The consumption of services, on the other hand, remains well below its year-ago levels, combining the restrictions that affect supply with fears of contagion that affect demand (Figure 5). The transitory nature of the increase in purchasing power, its orientation towards imported goods and the consolidation of online shopping has meant that salaried employment in trade has recovered only modestly.

The strong push to the consumption of durable goods led to a significant reduction in inventories of some product lines, putting pressure on their prices. In fact, between August and October, inflation accumulated close to 1.5 percentage points, which was partially reversed by the negative figure for November. Most of the ups and downs of this period are explained by the change in these prices, which is reflected in the recent increase and partial reversal of goods inflation (Figure 6). Thus, headline and core inflation stand at 2.7% and 3.2% annually, respectively.

These sharp inventory depletions and price increases have occurred in a context where imports have fallen considerably throughout 2020 (Figure 7). In the November *Business Perceptions Report*, companies reported difficulties in satisfying increased demand, in part because of lower inventories anticipated for this year, some logistical restrictions, and uncertainty in scheduling their purchase and import orders, and/or in anticipating the higher sales. There is no conclusive evidence of extensive inventory replenishment taking place.

It is important to note that the price increases of recent months will hardly have an impact on medium-term inflation, given the wide activity gap opened by the pandemic. In fact, the reversal in November of several of these previous increases confirms the volatile and transitory nature of these surprises. In the coming quarters, annual inflation is expected to hover around 3%, consolidating its convergence to the target during 2022. This scenario assumes that inventories will eventually be replenished, thus normalizing the supply of goods, and that the gradual reopening of the economy will boost the supply of services.

Our projection scenario for inflation and its implications for monetary policy remind us of the importance of correctly understanding the role of supply and demand forces behind price movements. This is a key part of the work that the CBC must do, as it is essential to assess the short- and medium-term outlook for inflation, and possible adjustments to monetary policy. This is an ongoing task within the CBC, one that faces new challenges as the economy changes continually. For example, we have witnessed how the interconnections between internal and external markets have been changing the way in which different factors affect inflation and how communication has become increasingly important for policy effectiveness. All this in an environment where we have been able to access and process massive amounts of data and a wealth of information. In the next few days, the CBC will publish a new supplement that brings together research on these topics and highlights their relevance to our work. This publication complements those we have already released in previous years on trend growth and the labor market and is part of the Bank's ongoing research agenda.

Back to our central projection scenario: it assumes that, going forward, consumption will continue to be driven by the withdrawal of pension savings, although the second withdrawal is estimated to have a weaker impact than the first, partly because the drop in income caused by the pandemic has already been more than offset by the measures adopted, and the resources that could be withdrawn are concentrated in the higher income quintiles—which are less motivated to use them in consumption (Figure 8). Combining the effects of the recovery in labor income, government transfers and the withdrawal of pension savings, private consumption es forecast to increase by about 11% in 2021, after receding some 7% this year.

The increased mobility and sectoral disparity of the economic recovery has also been reflected in the labor market. Incoming data show that about one third of the jobs lost during the pandemic have been recovered. Employment growth has been slower in services, which is relevant because they are more labor-intensive

(Figure 9). It is noteworthy that the increase in employment has been concentrated in non-salaried or informal occupations and has benefited women less. In fact, in the last year, the rate of female participation has fallen by nearly 9 percentage points, citing family responsibilities as the reason why (Figure 10). Given the social division of household work that predominates in Chile, it is likely that the recovery of female labor participation is conditional on the reopening of schools.

On investment, there has been a slight improvement in the most recent period, as works that had been shelved because of the pandemic have been gradually resuming. However, performance continues to lag behind more than we had anticipated, in part because restrictions have had a greater effect on constructions on site. Thus, after falling 13% this year, gross fixed capital formation is projected to increase by 7.3% in 2021. This projection, however, is subject to higher than usual degrees of uncertainty. On the one hand, although the surveys show increases in the number of new projects, these concentrate on mining and energy, with no major transmission to other economic sectors. In turn, engineering services posted significant drops in the third quarter, showing little activity in the initial stages of investment projects. On the contrary, the prices of copper and financial assets reflect a positive evolution. Meanwhile, the financial situation of companies, affected by falls in profits and greater indebtedness, could restrict the capacity to undertake new projects (Figure 11). Add to this the still high uncertainty about the evolution of the sanitary conditions, the rate of growth and its composition, as well as the fears of a recurrence of episodes of violence such as those at the end of 2019, as noted in our November *Business Perceptions Report*.

The measures adopted to stimulate credit to companies found a favorable response in the financial sector, which has helped to mitigate the impact of the crisis. Thus, by mid-year, record levels of granted new credit and restructuring of others were achieved under the FOGAPE lines implemented with government guarantee plus the CBC's *Conditional Facility Conditional on Increased Lending* (FCIC). In the last few months, the activity in the commercial portfolio has been reduced, coinciding with decline in the financing needs of the companies, as the gradual reopening of businesses has increased the cash flows. Thus, as per the *Business Perceptions Report*, more than half of those who had already obtained a loan do not report additional credit requirements. Meanwhile, our *Bank Lending Survey* for the third quarter shows fewer applications for working capital. This couples with the weak demand for funds for investment purposes that the survey has been showing for several quarters, in line with the lag of that part of expenditure. In this context, real growth in lending to companies fell to 4.3% annually in November, from a peak of 13.4% in June. Several other economies around the world have also shown a slowdown in commercial credit, consistent with the increase in income flows that has come with the increased mobility (Figure 12).

The corporate sector increased their indebtedness in order to cope with an unexpected and steep drop in cash flows and avoid solvency problems. Leverage has grown across firms of different sizes and sectors, although it has been most intense in the medium-sized ones and in trade, business and personal services lines, which have been among the hardest hit throughout the course of the pandemic. This upward trend in borrowing has also been seen in the rest of the world, amid the favorable financial conditions that came with the onset of the sanitary emergency.

As for households, consumer credit continued to decline, mirroring previous recessions, while for mortgage credit the slowdown has been much more moderate. In the former, annual contraction was around 16% in real terms in the past few months, reflecting a still partial upturn in employment, as well as the increase in the households' available resources as they withdrew their pension savings. The growth in mortgage loans is still positive, averaging around 6% annually in real terms since the statistical closing of our September 2020 *Monetary Policy Report*.

In this context, the higher risk associated with the different portfolios persists. The banks' provision expenses are at their highest in several years, which could suggest expectations of a deterioration in repayment rates. This contrasts with the drop in the system's delinquency rate, explained by increased write-offs and restructurings, and a portion of the withdrawn pension savings used for debt payment. As for the cost of bank financing, it remains low in historical perspective for the different users of credit, supported by the expansionary nature of the measures implemented by the CBC.

To put it briefly, the economy has improved after the sharp contraction of the second quarter, and measures to support households and credit have succeeded in mitigating the threat posed by the pandemic to the welfare of the population and the solvency of businesses. However, the prolonged sanitary restrictions, the lingering recovery of the most affected areas and the scars left by the crisis have held back the dynamism of the recovery, affecting not only aggregate demand but also the response capacity of supply. Consequently, the fall in activity this year will be sharper than we expected in September.

Even so, the economy will continue on a gradual path to recovery in the coming quarters and is still projected to return to September 2019 levels only by 2022. This considers that the pandemic situation will permit maintaining higher levels of mobility than those of mid-2020, and that during 2021 progress will be made in the immunization process, as stated by the government. The withdrawal of pension savings will have a significant effect on consumption and trade-related activities next year. The fiscal stimulus will continue to be positive, in accordance with the approved budget. The Chilean economy will receive a slightly greater external boost than previously considered, with our trading partners growing by an average of 4.9% in the years 2021 and 2022, with an average copper price of USD 3.15 per pound in the same years. With this, we project that after falling between 6.25% and 5.75% this year, the Chilean economy will grow between 5.5% and 6.5% in 2021 and between 3% and 4% in 2022 (Table 1).

With respect to monetary policy, our assessment of the macroeconomic scenario and its outlook leads us to anticipate that the monetary stimulus will remain high for an extended period of time, so as to ensure the consolidation of the economic recovery and the achievement of the Bank's objectives. In particular, we foresee the Monetary Policy Rate (MPR) remaining at its minimum level for much of the 24-month monetary policy horizon. As for the unconventional measures, they will remain in place. This considers that the total stock of bank bonds acquired by the CBC under different programs—around USD 8 billion—will be maintained for the next six months, reinvesting the coupons as they mature. This excludes the purchases made under the *Cash Purchase and Term Sale* (CC-VP) program, which have a different objective. With respect to the FCIC, the Board has made no changes to the total amount of resources available. However, we will evaluate its possible extension and changes in access parameters to facilitate their use to respond to the needs of the economy at this stage.

As always, the CBC will remain on the alert for financial stability risks, acting promptly and decisively with the instruments at its disposal whenever required. For the time being, the entry into force of the law that allowed a second withdrawal of pension savings will involve a significant liquidation of assets by the administrators of these funds. An orderly liquidation is crucial to preserve the stability of the financial markets and the efficiency of the price formation process, which is why we have established several measures. Among them are the reopening of the special programs of CC-VP and *Term Deposit Purchase Program*. These measures have pre-set caps and a limited duration, the same that were used for the first withdrawal.

The macroeconomic scenario continues to show more uncertainty than usual, so projections are highly conditional on the evolution of the pandemic and its effects on the income of businesses and individuals. There are scenarios where the evolution of the national economy could deviate from our forecasts. The risk of a significant increase in infections remains fully valid and could have important economic effects if it becomes necessary to re-impose stricter sanitary measures. In the medium term, this scenario is not as severe, given the advances in the development of a vaccine. Meanwhile, if a vaccine is available sooner, herd immunity could be achieved more quickly in the country, lifting some supply-side restrictions and leading to a faster and more robust recovery in expectations and demand. To the extent that the recovery of supply is the dominant factor in these scenarios, the monetary policy trajectory may not be significantly altered from the central scenario.

But if there is a scenario in which weak investment is more persistent, either because of uncertainty and/or because of the sequels of the pandemic, the reduced demand could ease the medium-term pressures on inflation. This would result the MPR being held at its technical minimum for longer, and the possibility of deepening the use of unconventional measures.

The economy is going through a complex recovery process that faces the challenges of both the pandemic and the political climate following the social crisis that broke out just over a year ago. The central scenario assumes that the latter will follow the institutional path approved by Congress. However, if new political and social tensions materialize that call this path into question, the negative impact on the economy may go beyond what the CBC may be able to neutralize with its traditional and unconventional toolkit.

Let us bear in mind that the government, businesses, households, and financial institutions have withstood the pressures of the last 15 months by making extensive use of the buffers accumulated in previous years, which has deteriorated their equity position. As we have noted in previous reports, this increases exposure to negative scenarios, which could significantly compromise the recovery of the economy and severely impact the well-being of families and the viability of many businesses. Indeed, the risk balance of this *Monetary Policy Report* shows a downward biased growth, and unbiased inflation. The downward bias for growth also recognizes the potential impact of the Metropolitan Region's relapse to Phase 2, starting tomorrow, with a follow-up review in two weeks' time. The CBC will continue to support the economic recovery by providing adequate financial conditions for households and businesses, keeping inflation under control and safeguarding financial stability.

III. Final thoughts

We are presenting this *Monetary Policy Report* at the end of a year marked by a crisis of magnitude and impact that the world has not known in decades. This crisis is different from any cycle in the literature or documented in economic history, where the impact on productive activity, businesses, employment, and households was sudden, massive, and simultaneous. Our economy suffered this impact on two levels, first, through a severe worsening of external conditions, caused by the downfall of the rest of the world's economies and, second, with the direct impact of social distancing measures on local activity. Thus, between the first quarter and the middle of the second quarter, the price of copper lost 20% of its price, activity contracted 17% and 1.8 million jobs were lost. The magnitude of the loss in activity is comparable to what we saw in the early 1980s, although over a much shorter time span.

But that was not all. At the beginning of the Covid-19 crisis, our economy was just trying to recover from the shock of the social crisis that broke out in October 2019. Many companies had been forced to close their doors for much of the fourth quarter because of violence, blockades or the disruption of logistics chains and about 70,000 workers had lost their jobs. Moreover, the social crisis significantly increased uncertainty, which worsened our country's risk, weakened our currency, depreciated various assets and called into question investment, development, and employment decisions in many sectors of the economy.

These two unprecedented shocks combined, both originating in non-economic factors, called for an equally unprecedented policy response. On the fiscal side, the projected deficit for 2020 went from 2% of GDP when the respective budget bill was proposed, to somewhat more than 8% of GDP in the updated execution. These resources have financed transfers to nearly 8 million persons and provided guarantees for 270,000 credits to small and medium-sized enterprises. In the legislative sphere, a tax reform was approved; important adjustments were made to unemployment insurance and regulations for the issuance of bonds; the Constitution was reformed to allow the CBC to purchase bonds from the Treasury in the secondary market, and two withdrawals of pension savings by affiliates were approved. The financial regulator relaxed a set of regulations and allowed 1.6 million loan restructuring operations and postponed by one year the entry into force of the capital requirements established in the New General Banking Law. Finally, the CBC has applied some 20 measures aimed at expanding the monetary stimulus, deepening it through non-conventional instruments to encourage credit and liquidity, stabilizing financial markets, and gaining space to address additional stressful scenarios. These measures have pledged resources equivalent to more than 20% of GDP, doubling the size of the Bank's balance sheet.

These efforts have paid off. The decline in activity stopped in June and in the four months since then it has recovered more than half of the losses of the previous four months. As a result, almost a third of the workers who lost their jobs have obtained new ones and a large number of those who benefited from the *Employment Protection Law* have returned to their occupations. In the third quarter, fiscal transfers were able to compensate for all the fall in labor income of the poorest 20% of the population, and the remaining 80% will have obtained liquidity that far exceeds the loss of income through the withdrawal of pension savings.

There is evidence that the FOGAPE-guaranteed loans reached preferentially the companies most affected by the drop in sales, which helped them to resume their activity. Moreover, a few months after the start of the pandemic, a significant number of activities, such as trade and education, had adapted their operation to do business under the newly imposed restrictions, resorting to digital or telematic means.

To a large extent, this has been possible thanks to the experience, capacity and buffers accumulated over many years within the framework of economic policy adopted in Chile. Fiscal prudence, expressed in the structural balance rule, generated assets and borrowing capacity to meet spending needs and adopt a countercyclical fiscal policy in the current situation. Monetary policy kept inflation low and expectations firmly anchored, generating space to strongly expand its expansionary stance by using both conventional and unconventional instruments. The rigor of our banking regulation, which is expected to be strengthened with the adoption of Basel III standards, allowed banks to expand their loans and respond to the cash flow difficulties of the companies. The depth of our capital market allowed large companies and the government to continue finding financing in the local bond market. The floating exchange rate continued to act as a buffer against external shocks, and the diversification of foreign trade allowed Chile to benefit from the anticipated recovery of China and other Asian economies.

All this has made this crisis different from previous cycles, not only because of the origin and magnitude of the initial shock, but also because of its propagation mechanisms and mitigating factors. This is how the behavior of credit, interest rates, liquidity, fiscal and monetary policy, and exports have acted countercyclically, which combines with the recent improvement in the terms of trade. As a result, this has been the crisis with the shortest period of contraction and, therefore, with the most immediate recovery. The outlook for Chile also compares favorably with that of many of its peers (Figure 13).

However, it is important to recognize the characteristics, biases, and limitations of the recovery so far. While the initial Covid-19 shock affected the economy across the board, in the recovery there has been a high degree of heterogeneity between the sectors most affected by social distancing norms and those that were able to cope with the confinements or recover when they were eased. On the demand side, there is a large gap between private consumption, driven by transfers and massive withdrawals of pension savings, and investment, more influenced by the financial situation of companies and uncertainty. In this context, the recovery is being accompanied by local price pressures, latent risks insolvencies and a precarious recovery in employment.

In other words, this is a still very unbalanced recovery, with frictions, mismatches, bottlenecks, and important risks, all of which may jeopardizes not only the speed of the recovery, but also our ability to resume growth at a close to trend rate over a longer term. This issue matters considering that, compared to our September 2019 estimates, the damaged caused by the social crisis and the Covid-19 crisis combined will add up to a loss of almost 10% of GDP by 2022 (Figure 14).

This is complemented with the fact that these two crises combined have caused dismay among the economic agents, whose equity position has worsened as they have used up their slack and reserves. Thus, from September 2019 and through this year to date, companies increased their indebtedness by 16 points of GDP; the capitalization of the stock market fell by nearly 25 points of GDP; the government has used its sovereign wealth funds and issued new debt to raise it in net terms by almost 8 points of GDP, and households will have reduced their pension savings by about 10 points of GDP when the second withdrawal of funds is completed. All of this makes these agents more vulnerable to future stressful scenarios.

The impact of these factors is already apparent in our economy. Our currency, for example, recovered only partially the parity and stability of before the social outbreak, reducing some of its capacity to cushion our capital market from external shocks. The long-term rates, which used to be more stable than those of comparable countries, are now more volatile, bringing home the changes in external financial conditions (Figure 15). These are just some examples of a more far-reaching phenomenon: the persistence of higher levels of uncertainty than in the past and compared with the more developed economies we had been coming closer to (Figure 16).

This is not about calling into question the recovery of the economy. It is no doubt that the crisis has already hit bottom and more severe damage has been averted. But as we live this episode behind, we need to concern ourselves with the challenges posed by the recovery. A sustained, balanced and all-encompassing recovery will not be achieved spontaneously, precisely because the economy has lost flexibility and consistency. It will need to be accompanied by proactive economic policy still for some time. In the case of the CBC, this manifests in the indication of persistence of the highly expansionary monetary policy stance given by the Board in this *Report*, and also in its willingness to facilitate the adjustment of the financial markets in the face of stressful events.

Many challenges transcend the CBC, however: the adjustment of sectors and businesses affected by more structural changes in their operating conditions as a result of social distancing; full incorporation into the digital economy and teleworking; recovering and increasing female participation in the labor market; adapting the profile of the financial burden to the companies' true possibilities; reducing labor informality and strengthening social protection systems. All these are challenges currently being shared by many countries and which Chile cannot ignore, nor can it ignore the need to gradually recover the buffers used up in the course of the current crisis. Addressing these challenges calls for measures other than those adopted to contain the crisis.

IV. To conclude

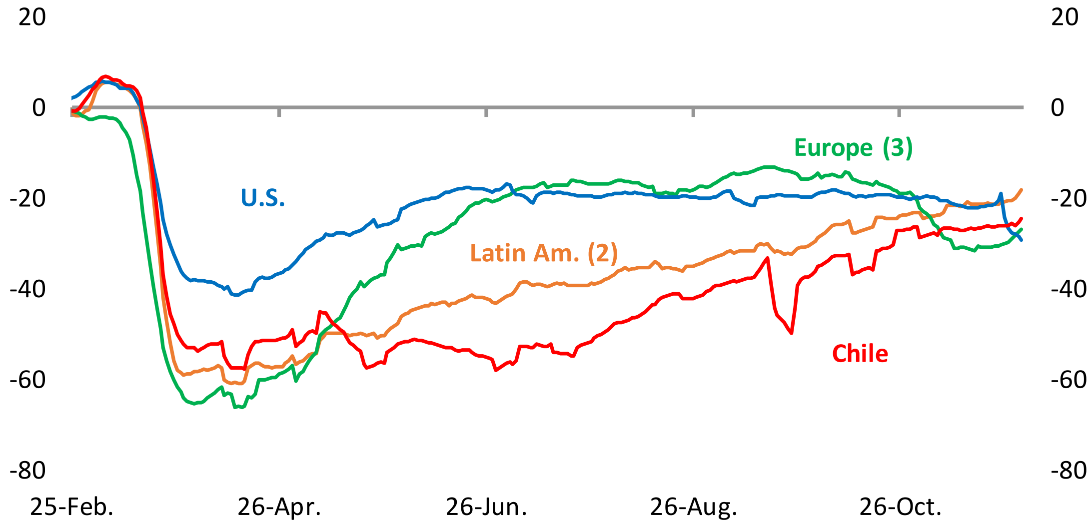
Having weathered the worst times of the crisis cannot lead us to overlook or postpone the challenges that recovery imposes on a day-to-day basis. The liquidity that the withdrawal of pension savings will cause should not create an artificial feeling of abundance because, as we know, this is only dealing with savings that will be in high need later on.

These are no times for self-indulgence. No panacea has been discovered for the economy's recovery, nor will it adjust automatically. There is no easy way to meet the challenges ahead, and there is no room for bad decisions. On the contrary, well-planned and coordinated work is imperative to confront these challenges in an economy that will emerge from this episode with long-lasting scars.

The CBC has been attentive, active, and willing to cooperate throughout the last 15 months in the face of unprecedented difficulties and will continue to be so for as long as necessary. This Commission has been receptive to our contributions and has supported us in our work when we have requested it. Along with thanking this support, we promise to maintain the same motivation, proactivity, and cooperation in the next stage, precisely because there is still so much that remains to be done.

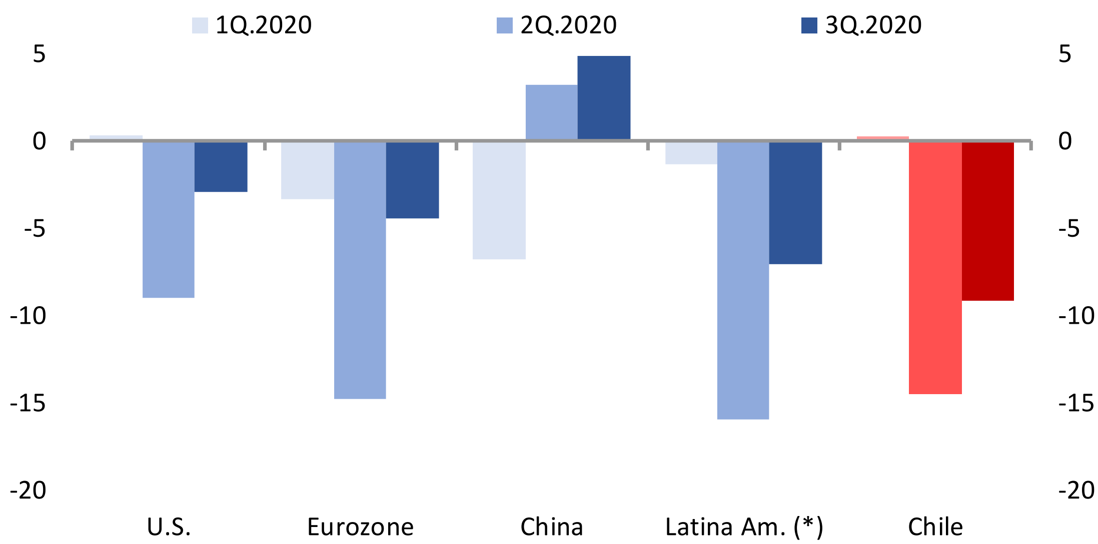
Thank you.

Figure 1
Mobility (1)
(moving seven-day average)



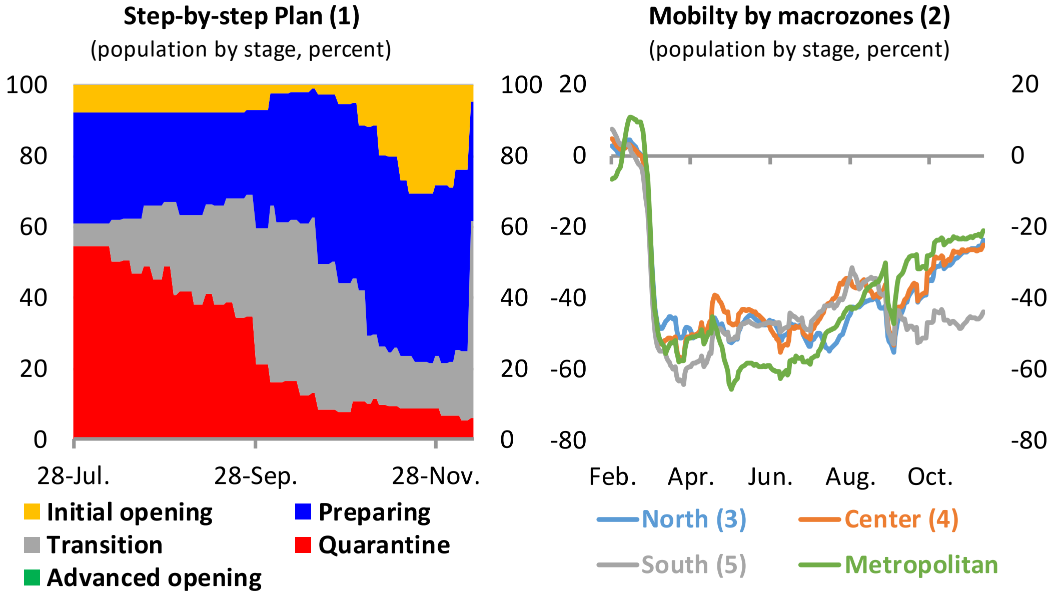
(1) Average of the categories stores and leisure, supermarkets and pharmacies, transport stations and workplaces. (2) Simple average of Argentina, Brazil, Mexico, Colombia and Peru. (3) Simple average of Germany, Spain, France, Italy and United Kingdom. Source: Covid-19 Community Mobility Reports, Google.

Figure 2
GDP, selected economies
(variación anual, porcentaje)



(*)Weighted average at PPP for Argentina, Brazil, Colombia, Mexico and Peru according to the World Economic Outlook (WEO, October 2020). For Argentina, the figure for Q3.2020 is the average of the annual variations of the EMAE for July, August and September. Sources: Central Bank of Chile, Bloomberg, and International Monetary Fund.

Figure 3

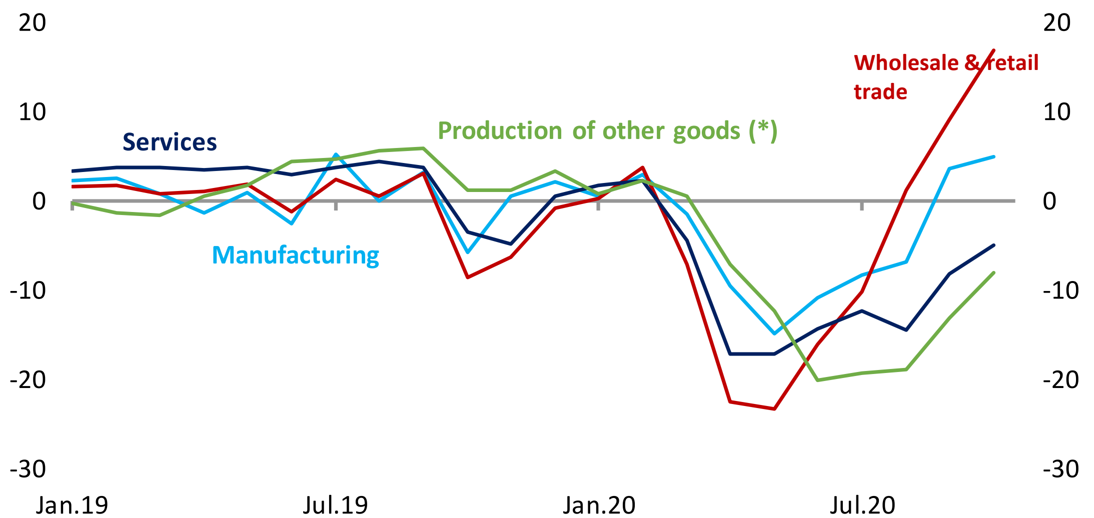


(1) Considers announcements and information up to 7 December 2020. (2) Considers information up to 1 January 2020. Average of the categories stores and leisure, supermarkets and pharmacies, transport stations and workplaces. (3) Includes the Arica-Parinacota, Tarapacá, Antofagasta, Atacama, and Coquimbo regions. (4) Includes the Valparaíso, O'Higgins, Maule, Biobío, and Ñuble regions. (5) Includes the Araucanía, Los Ríos, Los Lagos, Aysén, and Magallanes regions. Aysén is omitted between 17 August and 16 September due to lack of data. Sources: Central Bank of Chile using data from the Chilean Ministry of Health and the Covid-19 Community Mobility Report, Google.

Figure 4

Imacec index by sectors

(annual change, percent)

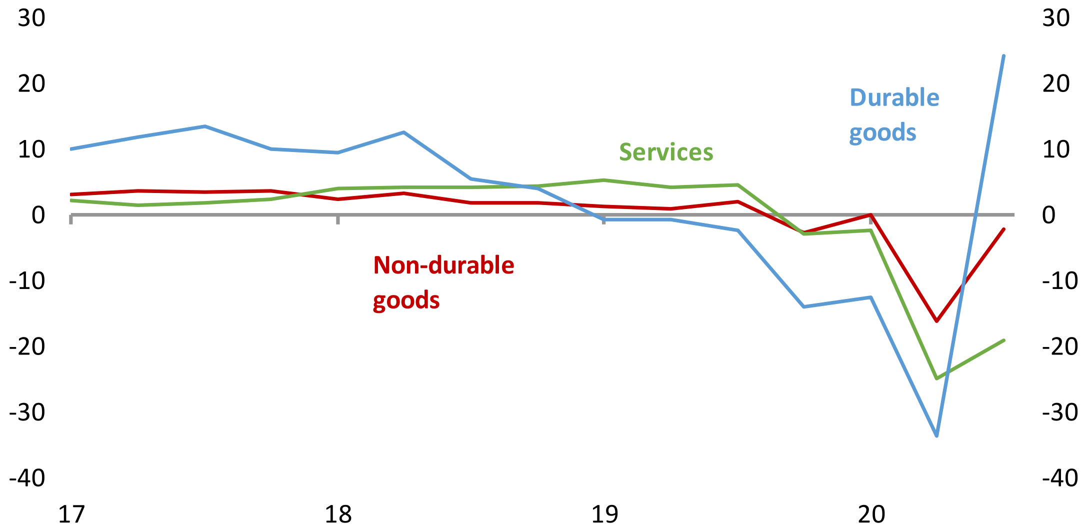


(*) Agriculture-forestry, Fishery, EGW and waste management, and Construction.
Source: Central Bank of Chile.

Figure 5

Households' consumption

(annual change, percent)

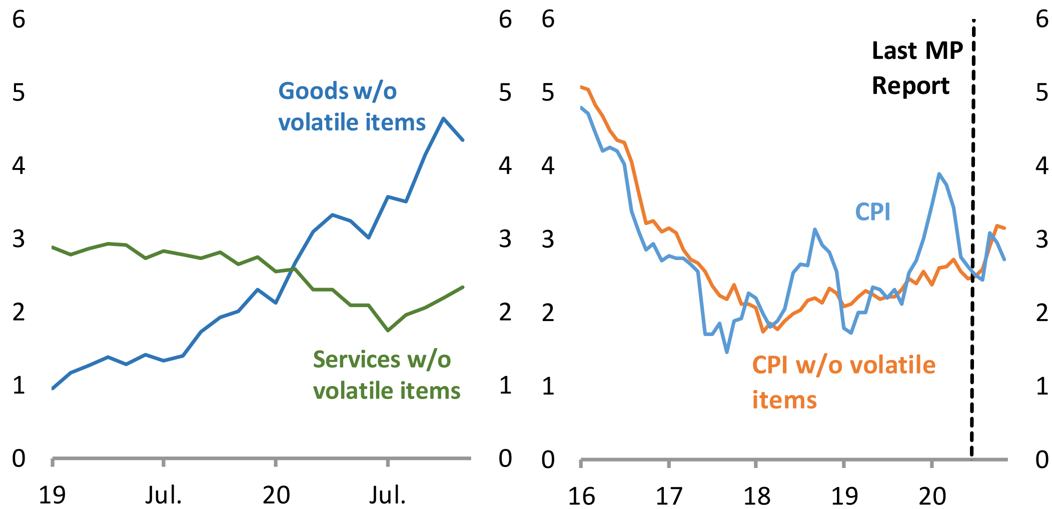


Source: Central Bank of Chile.

Figure 6

Inflation indicators

(annual change, percent)

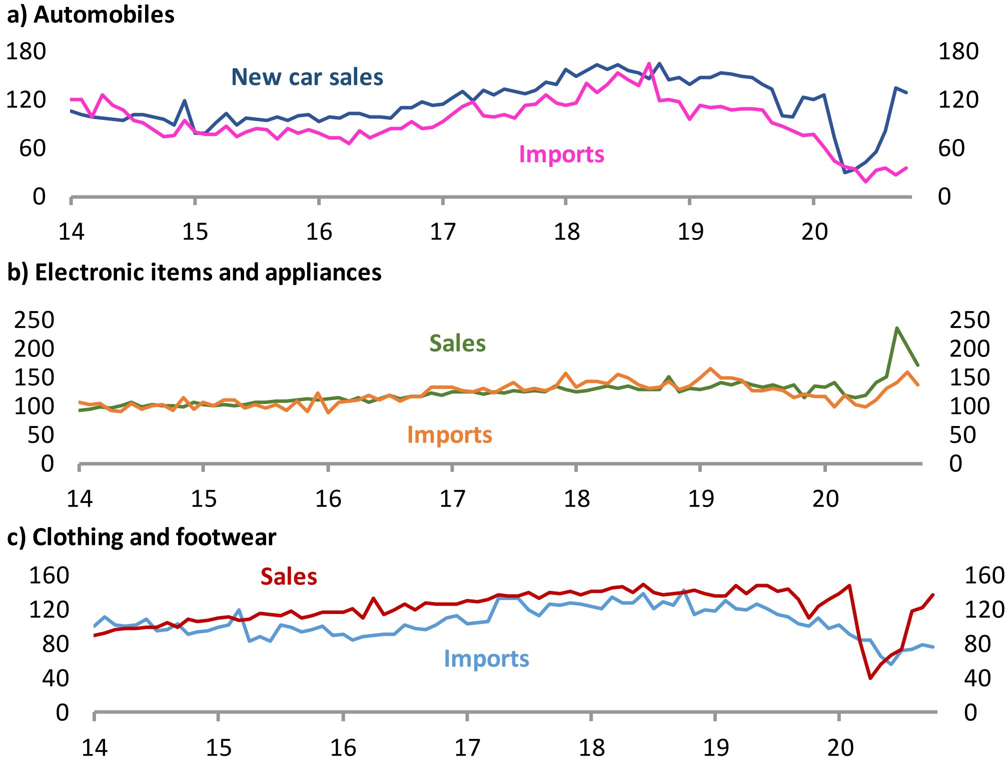


Sources: Central Bank of Chile and National Statistics Institute (INE).

Figure 7

Real imports and sales (*)

(index, base 2014=100, deseasonalized)



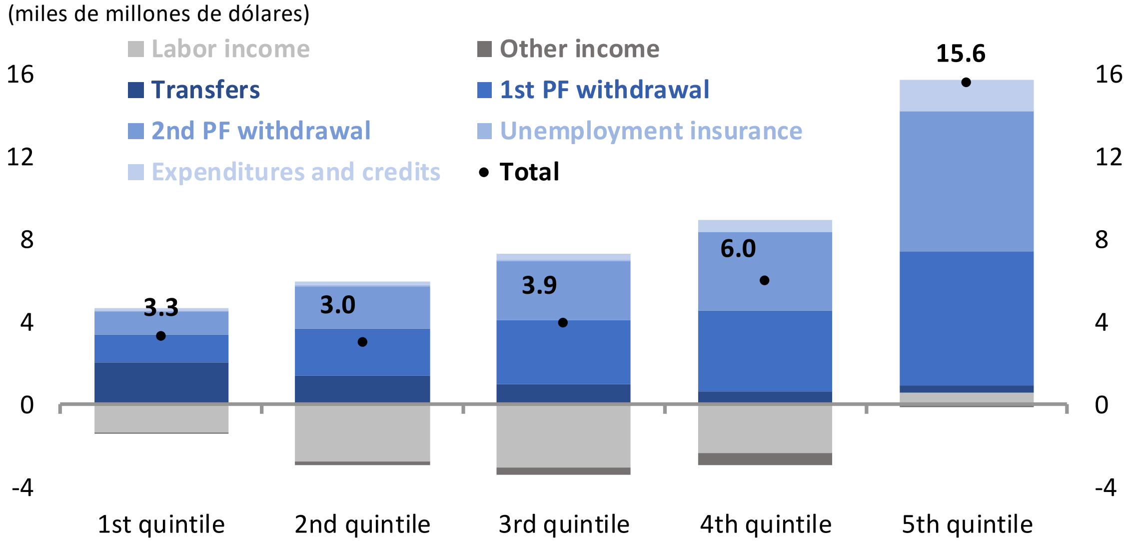
(*)CPI-deflated nominal imports of new cars, clothing and footwear, and electronics (including: home appliances, fax machines, audio equipment, and cell phones), as applicable. Imports of electronics and home appliances include cell phones, computers, television sets and home appliances.

Sources: Central Bank of Chile and National Statistics Institute (INE).

Figure 8

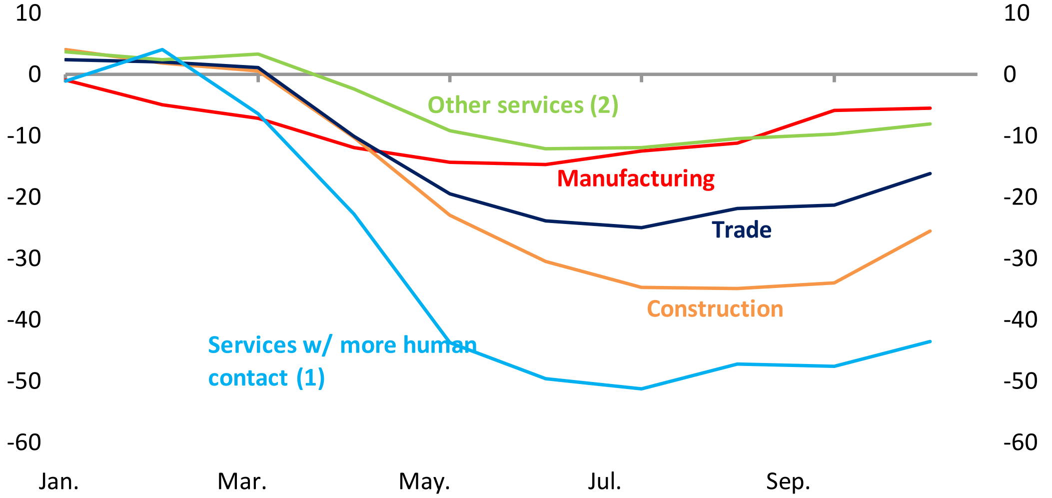
Changes in income and additional liquidity by quintiles, 2020

(miles de millones de dólares)



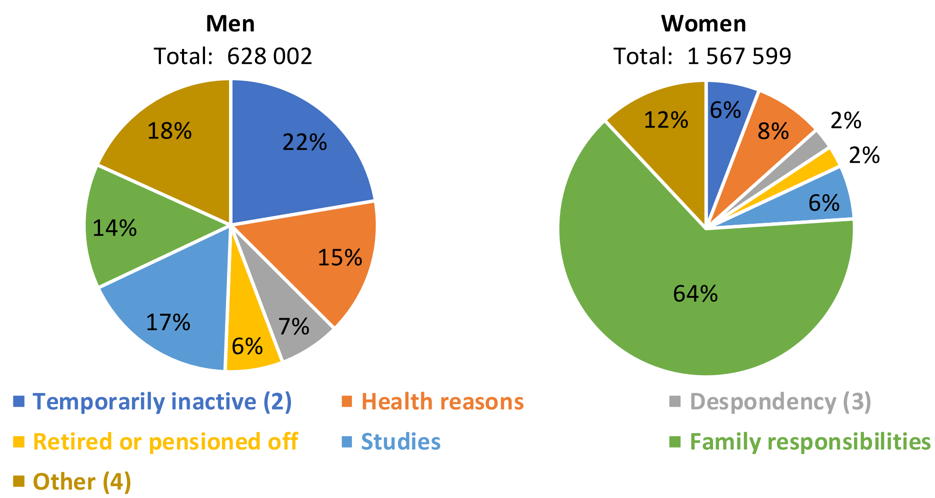
Source: Barrero *et al.* (2020).

Figure 9
Employment by sectors
(annual change, percent)



(1) IIncludes lodging and catering; and arts, entertainment and recreation. (2) Includes financial and insurance activities; real estate; professional, scientific and technical activities; extraterritorial organizations and bodies; administrative and support services; households as employers; human health care and social work; public administration and defense; education; and other services. Sources: Central Bank of Chile and National Statististics Institute (INE).

Figure 10
Inactivity motives (1)
(percent)

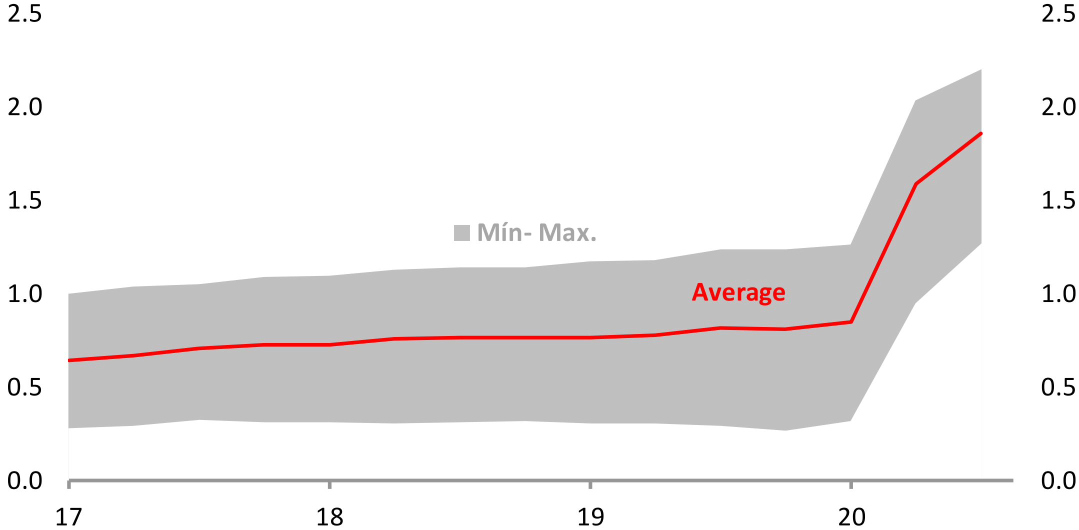


(1) Data from the National Employment Survey for the moving quarter ending in October. (2) About to launch own business, found a job that will start soon, waiting for the busiest season, waiting for results of recruitment process, or to be called. (3) Believes that will not be hired because of age; believes there is no job to be found; has given up searching; believes that no job or activity suits their skills; too much paperwork is required to start own business; does not know where to go or who to turn to. (4) Is rent earner, pregnant, forbidden by household member; does not want to work; does not need to work; other reason.
Source: National Statistics Institute (INE).

Figure 11

Indebtedness by sectors (*)

(debt to sales ratio)



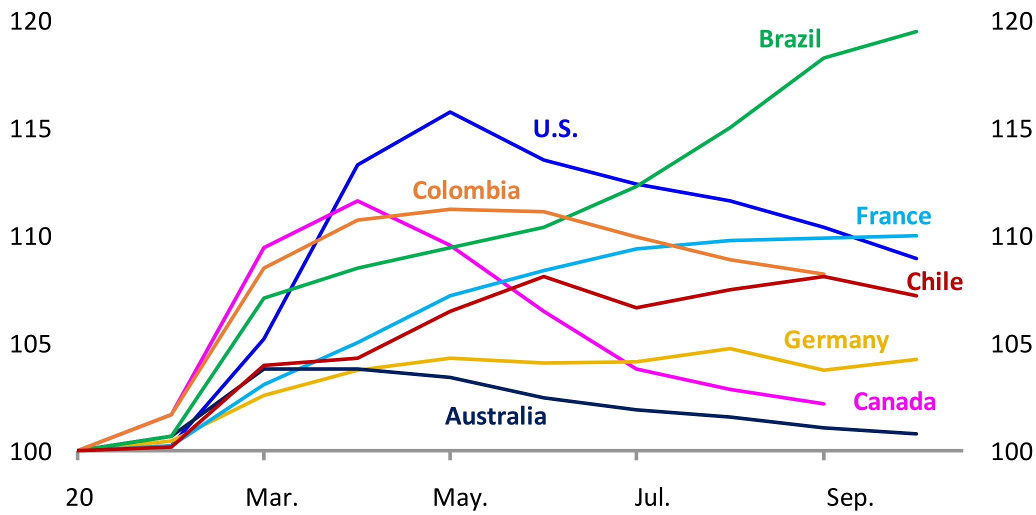
(*) The debt-to-sales ratio is calculated at firm level for each period. The numerator is the stock of bank and external debt of each firm. The denominator is calculated as the average of each firm's actual sales (deflated by UF) between the third quarter of 2018 and 2019. The debt by sector is calculated as the median of the firms in each sector. The red line is the simple average of all sectors. Gray area indicates the ratio of debt to minimum and maximum sales among the selected sectors for each period. The sectors included are: business services, housing services, financial services, personal services, trade, restaurants and hotels, industry, construction, and transportation.

Fuentes: Banco Central de Chile, Comisión para el Mercado Financiero y Servicio de Impuestos Internos.

Figure 12

Bank credit to non-financial companies

(index, January 2020=100)

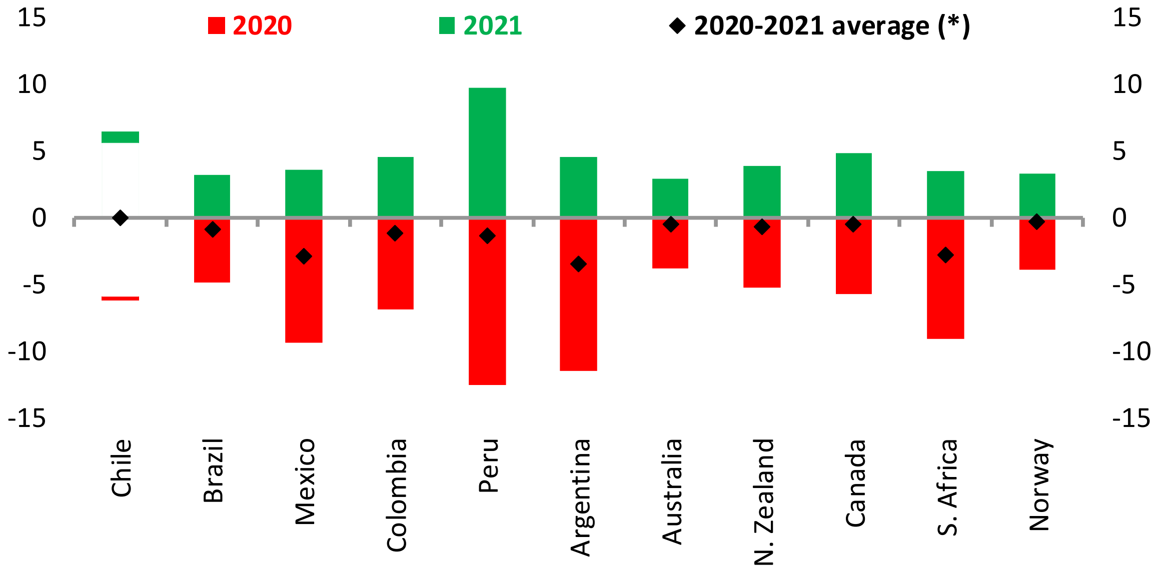


Souces: Central Bank of Chile and Bloomberg.

Figure 13

Growth in 2020-2021, selected economies

(annual change, percent)

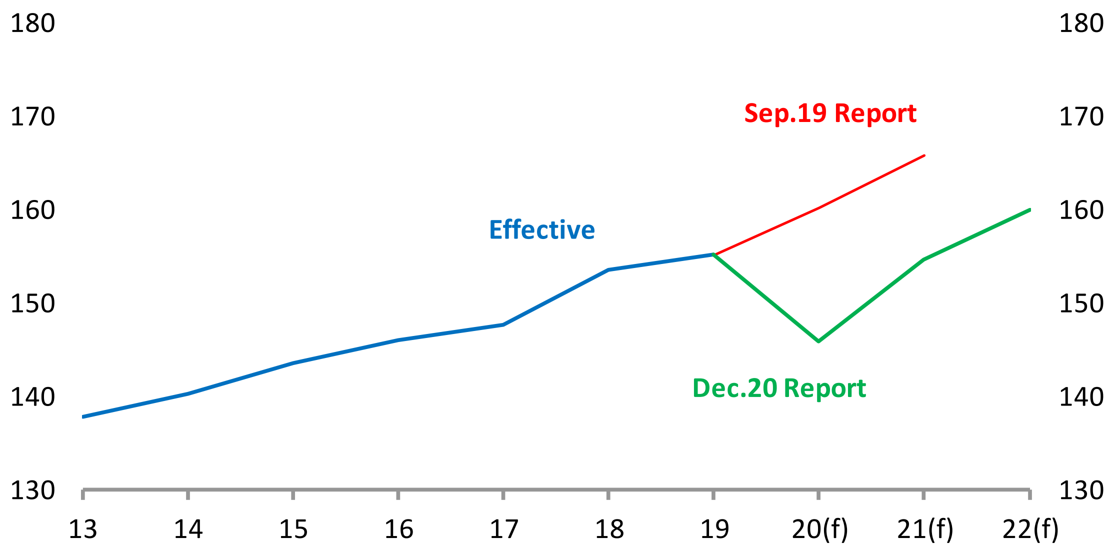


(*) Chile statistic calculated as the average between the mid point of the growth range forecast for 2020 and 2021. Sources: Central Bank of Chile and Consensus Forecasts.

Figure 14

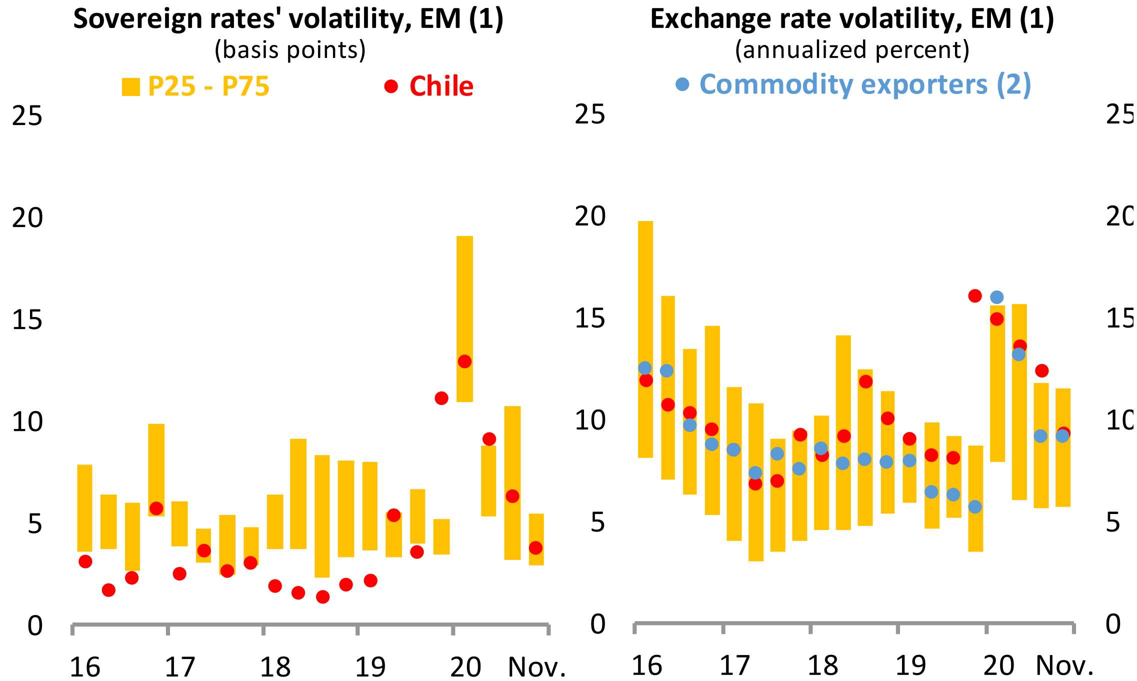
Real GDP

(billions of CLP, volumes at spliced chained year-before prices)



(f) Forecast. Considers the mid point of growth forecast ranges contained in respective MP Report. Source: Central Bank of Chile.

Figure 15

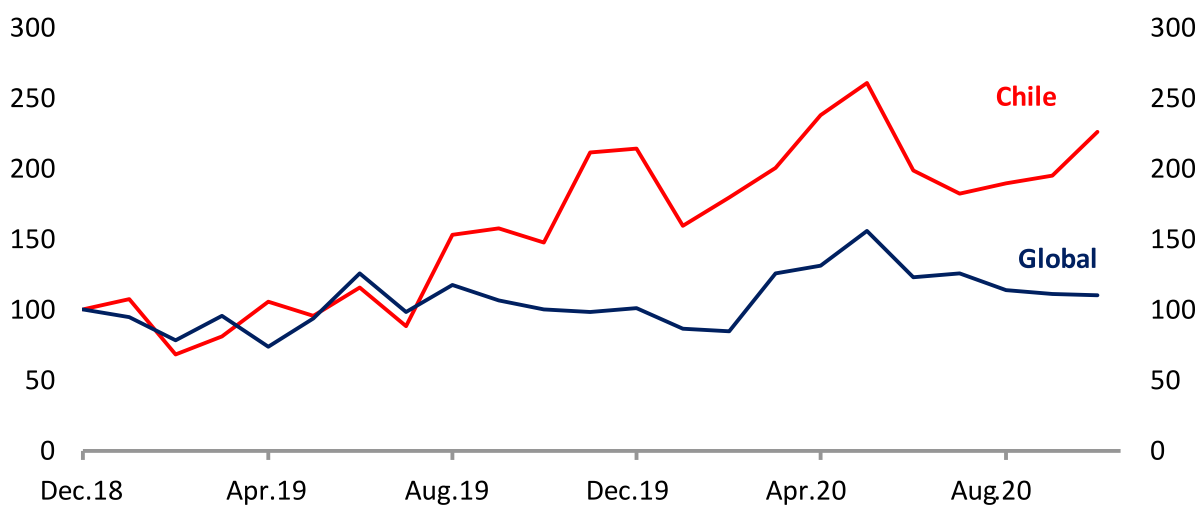


(1) EM includes Brazil, China, Colombia, Hungary, India, Indonesia, Malaysia, Mexico, Peru, Poland, Russia, and Turkey. (2) Includes Australia, Canada, New Zealand, and Norway.
Source: Central Bank of Chile based on Bloomberg data.

Figure 16

Uncertainty (*)

(Dec.2018=100)



(*) In both cases the Economic Policy Uncertainty (EPU) index is used.

Sources: Bloomberg and CLAPES UC.

Table 1
Domestic scenario
(annual change, percent)

	2019	2020 (f) Sep.20 Report	2020 (f) Dec.20 Report	2021 (f) Sep.20 Report	2021 (f) Dec.20 Report	2022 (f) Sep.20 Report	2022 (f) Dec.20 Report
GDP	1.1	-5.5/-4.5	-6.25/-5.75	4.0-5.0	5.5-6.5	3.0-4.0	3.0-4.0
Domestic demand	1.0	-7.1	-9.1	5.6	9.4	2.7	2.9
Domestic demand (w/o inventory change	1.5	-5.6	-7.8	7.0	9.6	2.4	2.5
Gross fixed capital formation	4.2	-10.6	-13.0	8.0	7.3	4.9	5.1
Total consumption	0.8	-4.2	-6.3	6.8	10.3	1.7	1.8
Goods and services exports	-2.3	-2.2	-1.7	5.0	4.3	4.8	4.8
Goods and services imports	-2.3	-9.4	-12.6	8.6	16.0	2.2	3.4
Current account (% of GDP)	-3.9	-1.4	0.9	-2.5	-1.5	-1.7	-1.8
Gross national savings (% of GDP)	18.9	18.5	19.7	16.8	17.0	18.2	17.6
Nominal gross fixed capital formation (% of GDP)	22.4	21.0	20.5	21.8	20.6	22.2	21.2

(f) Forecast.
Source: Central Bank of Chile.

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